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To: County and District Superintendents  
County and District Chief Business Officials  
Charter School Administrators

From: Janet Sterling, Director  
School Fiscal Services Division

Subject: Observations on the Financial Accountability and Reporting Processes

First, we would like to thank you and your staff for the time and effort you put into completing and submitting your budget, interim and year-end financial reports. We understand the multiple demands on your time, and we do appreciate the extra effort required to convert to the standardized account code structure (SACS). At the same time, we have become increasingly concerned about some statewide recurring problems, and feel compelled to address several areas of the financial accountability and reporting processes where improvement is needed.

### **Reporting Formats**

1. Budgets. *Education Code* sections [1621](#) (for county offices) and [42126](#) (for districts) require that budgets be prepared in a format or on forms prescribed by the Superintendent of Public Instruction (SPI).

It was brought to our attention this past year that some budgets adopted by governing boards were not presented to the board in the proper format. For instance, the board may have been presented with paperwork that described the proposed budget, the budget was adopted by the board based on that paperwork, and later, the adopted budget numbers were put into the J-200 or SACS formats for submission to the reviewing agency. The budget that is submitted to the county office or SPI must be the document that was actually adopted by the board. It is perfectly fine to provide the board with a budget that is in a different format, along with any assumptions, working documents or other information to help explain how your budget was built. But the board must also be presented with a budget prepared in one of our prescribed formats, because that is the budget that they must actually adopt.

Many local educational agencies (LEAs) do include the assumptions upon which their budgets are built in their budget submissions to their reviewing agency; these are very helpful

to the reviewer and their inclusion is appreciated. We also encourage you to prepare meaningful assumptions to share with your boards and with the public. We do ask you to ensure that any assumptions or other written documents presented to the board reconcile with the numbers in the adopted budget; if more than one set of materials is presented to the board, the sets should reconcile to each other. Further, getting into the habit of discussing the impact of operations in fiscal terms is good practice as you begin to implement Governmental Accounting Standards Board Statement 34 (GASB 34); an integral part of GASB 34 is the preparation of management discussion and analysis (MD&A) statements. (See our GASB 34 letters dated [November 5, 1999](#) and [June 16, 2000](#).)

2. **Interim Reports and Certifications.** *Education Code* sections [1240](#) (for county offices) and [42130](#) and [42131](#) (for districts) require that interim reports and certifications be in a format or on forms prescribed by the SPI. Again, it is helpful to provide the board with additional materials to aid them in understanding the financial condition of the LEA, but the reports and certifications must be prepared in one of our prescribed formats.
3. **Financial Reports.** *Education Code* sections [1628](#) (for counties) and [42100](#) (for school districts) require that the annual statement of all receipts and expenditures for the preceding fiscal year be prepared in a format or on forms prescribed by the SPI.

Currently, there are two budget, interim, and financial reporting formats prescribed by the SPI. These are, of course, the J-200/400/600 report format and the SACS format. Please ensure that you are complying with the law by adhering to the prescribed formats and forms.

## **Complete Submissions**

We continue to receive incomplete submissions of budgets, interim reports, and financial statements, which can delay our review and processing deadlines. We urge you to ensure that submissions are complete before sending them to us. The listings of what constitutes a complete submission for the budget, interim, and unaudited actuals financial reports are included in both the [SACS](#) and [J-200/400/600](#) Instruction Manuals. Also, the [SACS](#) and [J-200/400/600](#) Software User Guides provide detailed listings of all of the forms and whether they are required or optional for each reporting period. Please refer to these resources when preparing your submissions.

## **Deadlines and Due Dates**

We want to remind you of some of the more pertinent financial accountability due dates specified in the *Education Code*.

1. **Budgets.** The requirement that county offices and school districts adopt budgets on or before July 1 is specified in *Education Code* sections [1622](#) (for counties) and [42127](#) (for districts). Each county board of education is required to file their adopted budget with the SPI, the county board of supervisors, and the county auditor on or before July 1. Each school district governing board is required to file their adopted budget with the county superintendent of schools not later than five days after the adoption or by July 1, whichever occurs first.

The law is clear that county budgets must be filed with the SPI on or before July 1, and it is imperative that counties be more diligent in submitting budgets to the SPI on time. In the

past several years, many county office budgets were submitted to the SPI well after the July 1 deadline. A number of budgets were received over a month late, and some counties have filed their budgets late every year. As part of our oversight authority for county offices, we will be more proactive in the future whenever budgets are late, and we will be communicating separately with those county offices that are continually late in filing their budgets with us.

Further, we remind county superintendents that the law is also clear regarding the adoption and filing deadlines for district budgets. County superintendents should use their oversight authority and ensure that their districts' budgets are adopted and submitted on time.

2. Interim Reports and Certifications. The deadlines for interim reports and certifications are also clearly specified in *Education Code* sections [1240](#) (for county offices) and [42130](#) and [42131](#) (for districts); they must be filed within 45 days after the close of the period being reported. The reporting periods cover July 1 through October 31 for the First Interim, and July 1 through January 31 for the Second Interim. That means the reports and certifications are due to the reviewing authority (county office or SPI) by December 15 for the First Interim and by March 17 for the Second Interim. If a "third interim" financial statement projection is required (for LEAs with qualified or negative Second Interim certifications), those reports are due no later than June 1.
3. Financial Reports. The due dates for the annual financial statements (unaudited actuals reports) are specified in *Education Code* sections [1628](#) (for counties) and [42100](#) (for districts). The dates are (a) September 15 for district reports to be submitted to the county offices and county office reports to be submitted to the SPI and (b) October 15 for county offices to submit their districts' reports to the SPI. We strongly encourage everyone to cooperate in complying with these deadlines.

From our perspective, when financial report data are late, it jeopardizes our ability to carry out our responsibilities, e.g., to make data available and accessible to the public; prepare various reports to the state legislature, other state agencies, and the federal government; approve LEA indirect cost rates; and prepare the management bulletin that provides the statewide average salary and expenditure percentage data that LEAs use in completing their School Accountability Report Cards. Our work is just beginning when the reports arrive, and we need your help to ensure that the data get to us in a timely manner.

For more information about the due dates for financial reporting during the year, please refer to our Budget and Financial Reporting Requirements Calendars, which are provided every year with the budget software and instructions. We want to emphasize that it is extremely important to adhere to the deadlines for all of the reporting cycles in order to be in compliance with the law as specified in the *Education Code* and also to avoid sanctions.

## **Sanctions**

1. Salary Sanctions. *Education Code* Section [42129](#) allows the SPI to authorize the withholding of stipends, expenses, or salaries of district superintendents, county superintendents or members of governing boards, as appropriate, if required reports are not submitted within 14 days after the due date. Unfortunately, we do occasionally find it necessary to invoke sanctions for late reports. While our practice has always been to provide plenty of advance

warning that sanctions could occur and by what date they would occur, we ask for your help in ensuring that reports are submitted by the due dates, so the salary sanction process is not initiated.

Please note that the SPI can invoke salary sanctions because of incomplete submissions, as well as for late submissions. For instance, we could begin proceeding with a salary sanction if an LEA submits partial data or the submission is incomplete because one or more of the required forms has not been provided. Please keep this in mind when reviewing the materials that are submitted to us. We would rather avoid the salary sanction process by receiving complete submissions!

2. Apportionment Sanctions. There are also sanctions if LEAs neglect or refuse to make a budget, or neglect to file an interim report.
  - For county offices of education, *Education Code* Section [42120](#) requires that if the county board of education neglects or refuses to make a budget or neglects to file interim reports (in the manner prescribed, including format and due dates), the SPI shall not make any apportionment of state or federal money for that particular county office of education for the current fiscal year. Further, the SPI is required to notify the appropriate county official that he or she may not approve any warrants issued by the county office of education.
  - For school districts, *Education Code* Section [42128](#) requires that if the governing board of a school district neglects or refuses to make a budget or neglects to file interim reports (in the manner prescribed, including format and due dates), the county superintendent of schools shall not make any apportionment of state or county school money for the particular school district for the current school year. The county superintendent is required to notify the appropriate county official that he or she may not approve any warrants issued by the school district.

## **Other Concerns**

1. Criteria and Standards. *Education Code* sections [1240](#) and [1622](#) (for county offices) and [42127](#) and [42131](#) (for districts) require that budgets and interim reports be reviewed by the SPI or the county superintendents, as applicable, to determine whether the reports comply with the Criteria and Standards adopted by the State Board of Education. When reviewing budgets and interim reports, be sure that any deviations from the Criteria and Standards are adequately explained and that the explanations are relevant. Please take the time to double check the causes for any deviations and be sure that explanations accurately portray the circumstances. For more information about the Criteria and Standards for school districts and county offices, please see the *California Code of Regulations, Title 5, Education*, beginning with sections 15440 (for school districts) and 15467 (for county offices). *Title 5* is accessible on the Internet at <http://ccr.oal.ca.gov/>.
2. Collective Bargaining. LEAs are required to disclose to the public information about proposed collective bargaining agreements and to provide notification of salary settlements to their reviewing agencies.

- LEAs are required by *Government Code* Section [3547.5](#) to publicly disclose the provisions of all collective bargaining agreements before they enter into a written agreement. This provision ensures that the public is aware of the costs associated with a tentative collective bargaining agreement before it becomes binding on the school district or county office of education. In Management Advisory 92-01, entitled “Public Disclosure of Collective Bargaining Agreements” (issued May 15, 1992), we gave advice on the minimum amount of information that should be included in these public disclosure documents, and advised that such minimum amount of information would also serve to satisfy the requirements of the salary settlement notification component in the Criteria and Standards. The Criteria and Standards require that when employee negotiations are not settled, upon settlement, the reviewing agency (SPI for county offices and county superintendent for districts) must be provided with a salary settlement notification that includes an analysis of the cost of the settlement and its impact on the operating budget. Because these cost analyses are such an important and integral part of the overall review and assessment of an entity’s fiscal health, we ask that you routinely provide these documents whenever settlements occur, even if the settlement does not occur until the next fiscal year.

For more information about our recommendations on the procedures and format LEAs should use in meeting the public disclosure and salary settlement notification requirements, please see Management Advisory 92-01, which is now available at the following Internet address: [www.cde.ca.gov/sfsdiv/financial/corresp.htm](http://www.cde.ca.gov/sfsdiv/financial/corresp.htm).

- *Government Code* Section [3540.2](#) requires a school district with a qualified or negative interim report certification to submit any proposed (tentative) collective bargaining agreement to the county office for review and comment. The school district shall provide the county with all information relevant to yield an understanding of the financial impact of that agreement. The school district must allow the county office at least six days from the date it receives the appropriate forms, to review and comment on the proposed agreement. The county office must notify the school district publicly within those six days if the agreement would endanger the fiscal well-being of the district.
3. Debt Obligation Analyses. *Education Code* Section [17150](#) requires that school districts notify their county superintendent and county auditor, and that county superintendents notify the SPI, whenever a district or county governing board issues certificates of participation or revenue bonds, or enters into any agreement for financing school construction. The county superintendent and county auditor, or the SPI, as appropriate, may comment publicly to the board regarding the capability of the district or county to repay that debt obligation. The comments should occur within 15 days of the receipt of the information regarding repayment schedules for that debt obligation and evidence of the ability of the school district or county office to repay that obligation.

We sincerely hope districts are routinely requesting county offices to review and comment on the district’s ability to repay debt, and we encourage county offices to do so as well. If districts are not doing this, they should be, and county offices should insist on it as part of their oversight role. While this requirement is important for all LEAs, it is particularly pertinent if an LEA has a qualified or negative interim certification. In those cases, pursuant to *Education Code* Section [42133](#), LEAs are actually prohibited from issuing, in the current or succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds,

or any other debt instruments that do not require the approval of the voters, unless the reviewing agency has determined that the repayment of that indebtedness is probable.

Again, we do understand the enormity of the work involved in completing and reviewing the various financial reports in a timely manner, and we also understand the multiple demands on your time. For our part, we will do everything we can to help by making every effort to ensure that the reporting software and related manuals are issued timely and are accurate.

We hope this letter has provided you with some insight about problem areas in financial reporting where we may be vulnerable if we do not adhere to the law. We also hope you will think about ideas for strengthening the fiscal accountability process. As always, we welcome your comments and suggestions, and thank you for your continued cooperation. If you have any questions about this letter or about the financial accountability and reporting processes, please contact our Office of Financial Accountability and Information Services at (916) 322-1770, or by e-mail at [faisinfo@cde.ca.gov](mailto:faisinfo@cde.ca.gov).

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